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SUBJECT: BAHRAIN SET TO BEGIN UTILITIES PRIVATIZATION

11. SUMMARY: The Government is looking to partial privatization of its power and water sector to meet rising demand when the GoB cannot support the construction of new power plants. Beginning with a new power plant currently under tender, the GoB intends to privatize subsequent power and water production and management, while maintaining control over supply. There is some concern among experts that the details--subsidies and competition between state and private companies--have not been worked out sufficiently. Nevertheless, the GoB needs to undertake measures now to meet increasing demands in the near future. It is using two concurrent conferences, Water Middle East and Power-Gen Middle East, to drum up interest in the sector. These conferences will also afford U.S. companies access to this important regional market. END SUMMARY

Utility Considerations

12. Power demand in Bahrain has been growing approximately 8 percent per year, Minister of Finance and National Economy Abdulla Saif told the Shura Council at their weekly session on April 5 according to local April 6 press reports. This growth in demand requires the state to invest in new power facilities every 2 to 3 years, according to statistics published by the Ministry of Electricity and Water. Likewise, current fresh water supply just meets demand, with essentially no excess capacity. The current building boom, population growth and economic activity are expected to drive demand higher. An Ernst and Young study commissioned by the Crown Prince in 2003 indicated that Bahrain would be in urgent need of a new power generating facility by 2006.

13. Increasing concerns over spiraling costs, strains on the national budget, and interests in energy security have been driving the Government of Bahrain (GOB) to consider seriously the privatization of its power and water utilities as it strives to meet rising demand, former Undersecretary of Electricity and Water and current President of the Business Promotion Center Jamil Al-Alawi told EconOff March 127. In keeping with the suggestions of the Ernst and Young study, the GOB is embarking on an incremental privatization strategy beginning with the construction in 2006 of a new, third power plant in the town of Hidd. From then on, new power or power/water facilities would be privately financed and managed, with the GoB retaining control over distribution, Dr. Nabeel Al Muskati, Assistant Undersecretary for Planning and Projects at the Ministry of electricity and Water, explained to Econ FSN on March 29.

14. Plans to privatize the sector have not completely factored in commercial interest and profit motives, Al-Alawi explained to EconOff March 27. Since power cannot be stored long term, a private facility would have little interest in building up production capacity beyond the minimum requirements, leaving the government to find ways to meet demand during the peak summer season. Al-Alawi maintained that a nimble private-sector provider will be able to reduce operating costs by 30 percent over that of ungainly government management, thus offsetting the GoB subsidy. Efficient sector management ensure sufficient distribution of power and supply stability, he said. The current Ministry of Electricity and Water privatization plan approved by Bahrain's Cabinet in December 2003 allows for a tender to construct a privately managed 1000MW power-only facility known as Al Azel in the Northeast town of Hidd on Muhurraq Island, Al Muskati told EconFSN March 29. The Ministry has stipulated its intention to retain authority over distribution while reserving the authority of production and management to the private company under a 20-year power selling agreement.

15. COMMENT: GoB interest in power and water innovation is underlined by two upcoming trade shows. Bahrain will host Water Middle East for the second year, from September 13 to 15, this time in conjunction with Department of Commerce approved Power-Gen Middle East. U.S. Embassy Manama, in conjunction with the U.S. Consulate Dhahran and U.S. Embassy Doha, will host a catalog show at this event, to facilitate U.S. company presence at this event. Together with the

upcoming FTA with Bahrain and regional interest, this exhibition will provide an excellent opportunity for companies seeking to operate in the sectors, potentially in areas of consulting, construction, management, and distribution, alongside the associated logistical and support related equipment required. END COMMENT